

Compliance Section

This section contains various schedules as required by the *U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and other state agencies. It also contains the Independent Auditors' reports on compliance and controls as required by the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, and the North Carolina State Single Audit Implementation Act.

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2004

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>	<u>Total Expenditures</u>
Federal Awards					
<u>U.S. Department of Transportation</u>					
Direct Programs:					
Federal Transit Authority Capital and Operating: Operating Assistance Formula Grants	20.507	NC-90-X310	\$ 969,177	\$ -	\$ 969,177
Passed through N.C. Department of Transportation:					
Metropolitan Planning Organizations	20.205	02-08-001	53,191	-	53,191
Metropolitan Planning Organizations	20.205	8.53302	<u>188,695</u>	<u>-</u>	<u>188,695</u>
Total U.S. Department of Transportation			<u>1,211,063</u>	<u>-</u>	<u>1,211,063</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs:					
Community Development Block Grant Program/Entitlement Grants	14.218	-	1,813,947	-	1,813,947
Fair Housing Assistance Program-- State and Local	14.401	-	194,550	-	194,550
HOME Program	14.239	-	<u>1,042,076</u>	<u>-</u>	<u>1,042,076</u>
Section 108 Rehabilitation Program	14.221	-	<u>1,614,519</u>	<u>-</u>	<u>1,614,519</u>
Total U.S. Department of Housing and Urban Development			<u>4,665,092</u>	<u>-</u>	<u>4,665,092</u>

(continued)

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2004

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>	<u>Total Expenditures</u>
<u>U.S. Department of Agriculture</u>					
Passed through N.C. Department of Health and Human Services: Division of Public Health:					
Summer Food Service Program for Children	10.559	7843	\$ 5,083	\$ -	\$ 5,083
Child and Adult Care Food Program	10.558	7197	<u>7,633</u>	<u>-</u>	<u>7,633</u>
Total U.S. Department of Agriculture			<u>12,716</u>	<u>-</u>	<u>12,716</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Local Law Enforcement Block Grant	16.592	-	71,201	-	71,201
Bulletproof Vest Program	16.607	-	<u>8,073</u>	<u>-</u>	<u>8,073</u>
Total U.S. Department of Justice			<u>79,274</u>	<u>-</u>	<u>79,274</u>
<u>U.S. Environmental Protection Agency</u>					
Direct Program:					
Vulnerability Assessment and Security of Watersheds	66.476	-	<u>12,152</u>	<u>-</u>	<u>12,152</u>
<u>U.S. Department of Interior</u>					
Passed through N.C. State Historic Preservation Office					
Historic Preservation Fund Grants-in-Aid	15.904	-	<u>2,000</u>	<u>-</u>	<u>2,000</u>
<u>Department of Homeland Security</u>					
Direct program:					
Assistance to Firefighters Grant Program	97.044	EMW-2003 FG-080102	<u>121,142</u>	<u>-</u>	<u>121,142</u>

(continued)

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2004

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>	<u>Total Expenditures</u>
State Awards					
<u>N.C. Department of Transportation</u>					
Direct Programs:					
Powell Bill	N/A	-	\$ -	\$ 2,077,499	\$ 2,077,499
State Maintenance Assistance Program	N/A	SMAP	-	762,592	762,592
Community Transportation	N/A	9.9052127	-	114,136	114,136
Tier I Technology Funding	N/A	-	-	8,089	8,089
Total N.C. Department of Transportation			-	2,962,316	2,962,316
<u>N.C. Department of Health and Human Services</u>					
Passed through Land of Sky Regional Council:					
Senior Citizens Outreach	N/A	02-10	-	2,941	2,941
Senior Center General Purpose Funding	N/A	02-42	-	10,174	10,174
Total N.C. Department of Health and Human Services			-	13,115	13,115
<u>N.C. Clean Water Management Trust</u>					
Direct:					
Mills River Watershed Protection Project Grant Agreement	N/A	1998B-303A	-	127,711	127,711

(continued)

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2004

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>	<u>Total Expenditures</u>
<u>N.C. Department of Environment and Natural Resources</u>					
Direct programs:					
High Unit Cost Grant	N/A	DEH0930	\$ -	\$ 1,293,616	\$ 1,293,616
Recreation Trails Program	N/A	2003-134	-	250,000	250,000
Total N.C. Department of Environment and Natural Resources			-	1,543,616	1,543,616
<u>N.C. Department of Insurance</u>					
Direct:					
Firefighter's safety seats	N/A	-	-	5,000	5,000
<u>N.C. Division of Emergency Management</u>					
Direct:					
Hazardous Material Grant	N/A	-	-	20,350	20,350
<u>N.C. Crime Control and Public Safety</u>					
Direct:					
Emergency Management	N/A	GPO409	-	87,661	87,661
<u>Governor's Crime Commission</u>					
Direct:					
ADP GIS Capacity Enhancement	N/A	GPO403	-	30,477	30,477
<u>N.C. Community Development Initiative</u>					
Direct:					
NCCDI	N/A	-	-	8,012	8,012
Total Federal and State awards expended			\$ 6,103,439	\$ 4,798,258	\$ 10,901,697

(continued)

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2004

NOTES TO THE PRECEDING SCHEDULE:

1. **Significant Accounting Policies**

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the City of Asheville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

2. **Federal and State Awards Which Have Been Passed Through to Subrecipients**

<u>Subrecipient</u>	<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Tenant-Based Rental Assistance	HOME Investment Partnerships	14.239	\$ 28,556
NHS Single-Family New Construction	HOME Investment Partnerships	14.239	25,000
MHO M/F New Construction--Northpoint Commons	HOME Investment Partnerships	14.239	398,602
Black Mountain Rural Housing Rehab	HOME Investment Partnerships	14.239	20,243
HAC Affordable Housing Program	HOME Investment Partnerships	14.239	1,389
Henderson Co. Habitat--Highlander Woods	HOME Investment Partnerships	14.239	53,222
Henderson Co. Habitat--Village at King Creek	HOME Investment Partnerships	14.239	18,124
Madison Co. Owner-Occupied Rehab	HOME Investment Partnerships	14.239	137,092
General Program administration	HOME Investment Partnerships	14.239	106,276
CHDO operating expenses	HOME Investment Partnerships	14.239	60,150
NCR--Battery Park Apartments Rehab	HOME Investment Partnerships	14.239	225,000
MHO--Homeownership Zone	HOME Investment Partnerships	14.239	77,534
HAC--Homeownership Assistance	HOME Investment Partnerships	14.239	5,400
Total			\$ 1,156,588

See the accompanying Independent Auditors' Report on Supplementary Information.

CITY OF ASHEVILLE

**Schedule of Revenues and Expenditures--High Unit Cost Grant--
Project Number DEH0930**

For the Year Ended June 30, 2004

	<u>Prior Years</u>	<u>Current Year</u>	<u>Project to Date</u>
Sources of funds:			
State funds	\$ <u> -</u>	\$ <u>1,937,019</u>	\$ <u>1,937,019</u>
Construction cost:			
WC0201	\$ -	\$ 583,484	\$ 583,484
WC0202	-	613,090	613,090
WR0203	591,647	(60,275)	531,372
Administrative expenditures:			
Professional services	274,781	148,317	423,098
Advertising	245	574	819
Legal fees	8,718	4,326	13,044
Engineering	330	-	330
Other:			
License, tax and fees	96	-	96
Right of ways	<u>-</u>	<u>4,100</u>	<u>4,100</u>
Total expenditures	\$ <u>875,817</u>	\$ <u>1,293,616</u>	\$ <u>2,169,433</u>

See the accompanying Independent Auditors' Report on Supplementary Information.

CITY OF ASHEVILLE

Schedule of Revenues and Expenditures--High Unit Cost Grant-- Project Number DEH0772

From Inception and for the Year Ended June 30, 2004

	<u>Prior Years</u>	<u>Current Year</u>	<u>Project to Date</u>
Sources of funds:			
State funds	\$ <u>2,636,766</u>	\$ <u>-</u>	\$ <u>2,636,766</u>
Construction cost:			
WC0201	\$ 864,007	\$ -	\$ 864,007
WC0202	748,758	-	748,758
WR0203	601,771	-	601,771
Administrative expenditures:			
Professional services	323,985	-	323,985
Advertising	770	-	770
Legal fees	15,990	-	15,990
Engineering	60,885	-	60,885
Other:			
Right of ways	<u>20,600</u>	<u>-</u>	<u>20,600</u>
Total expenditures	\$ <u>2,636,766</u>	\$ <u>-</u>	\$ <u>2,636,766</u>

See the accompanying Independent Auditors' Report on Supplementary Information.



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

City of Asheville
Asheville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Asheville, North Carolina, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 15, 2004. We did not audit the financial statements of the City of Asheville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Asheville ABC Board were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Asheville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However,



City of Asheville, North Carolina
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we noted a certain matter involving the internal control over financial reporting that we have reported to management in a separate letter dated October 15, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the governing board, management, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 15, 2004

Dixon Hughes PLLC



DIXON HUGHES PLLC
Certified Public Accountants and Advisors

Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

City of Asheville
Asheville, North Carolina

Compliance

We have audited the compliance of the City of Asheville, North Carolina (the "City"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control over compliance that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that we have reported to management in a separate letter dated October 15, 2004.

This report is intended for the information and use of the governing board, management, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 15, 2004

Dixon Hughes PLLC



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

**Report On Compliance With Requirements Applicable To Each Major State
Program And Internal Control Over Compliance In Accordance With
Applicable Sections of OMB Circular A-133
And The State Single Audit Implementation Act**

City of Asheville
Asheville, North Carolina

Compliance

We have audited the compliance of the City of Asheville, North Carolina (the "City"), with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2004. The City's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.



In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control over compliance that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that we have reported to management in a separate letter dated October 15, 2004.

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October 15, 2004

Dixon Hughes PLLC

CITY OF ASHEVILLE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Non-compliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major federal programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes X no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Program
14.221	Section 108 Rehabilitation Program

(continued)

CITY OF ASHEVILLE

Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2004

Dollar threshold used to distinguish
between Type A and Type B programs: **\$300,000**

Auditee qualified as low-risk auditee? X yes no

State Awards

Internal control over major State programs:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes X none reported

Any audit findings disclosed that are required
to be reported in accordance with the
State Single Audit Implementation Act? yes X no

Type of auditor's report issued on compliance for major State programs: **unqualified**

Identification of major State programs:

Program Name

Powell Bill
High Unit Cost Grant

Section II--Financial Statement Findings

There were none.

Section III--Federal Award Findings and Questioned Costs

There were none.

Section IV--State Award Findings and Questioned Costs

There were none.

CITY OF ASHEVILLE

Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2004

There were no findings or questioned costs for the years ended June 30, 2003 and 2002.